

**REPORT OF THE AUDIT OF THE  
SPENCER COUNTY  
FISCAL COURT**

**For The Fiscal Year Ended  
June 30, 2004**



**CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS  
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## **EXECUTIVE SUMMARY**

### **AUDIT EXAMINATION OF THE SPENCER COUNTY FISCAL COURT**

**June 30, 2004**

The Auditor of Public Accounts has completed the audit of the Spencer County Fiscal Court for fiscal year ended June 30, 2004.

We have issued an unqualified opinion on the governmental activities and each of the major fund financial statements of Spencer County, Kentucky.

#### **Financial Condition:**

The Fiscal Court had net assets of \$2,339,546 as of June 30, 2004. The Fiscal Court had unrestricted net assets of \$814,593 in its governmental activities as of June 30, 2004, with total net assets of \$2,339,546. The Fiscal Court had total debt principal as of June 30, 2004 of \$964,203 with \$244,189 due within the next year.

#### **Deposits:**

The Fiscal Court and component units' deposits were insured and collateralized by bank securities or bonds.



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**CRIT LUALLEN**  
**AUDITOR OF PUBLIC ACCOUNTS**

To the People of Kentucky  
Honorable Ernie Fletcher, Governor  
Robbie Rudolph, Secretary  
Finance and Administration Cabinet  
Honorable David Jenkins, Spencer County Judge/Executive  
Members of the Spencer County Fiscal Court

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities and each major fund, of Spencer County, Kentucky, as of and for the year ended June 30, 2004, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Spencer County Fiscal Court. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, Spencer County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund, of Spencer County, Kentucky, as of June 30, 2004, and the respective changes in financial position thereof for the year then ended in conformity with the modified cash basis of accounting.

The county has implemented Governmental Accounting Standards Board Statements 33, 34, and 37 as they relate to the modified cash basis of accounting as described in Note 1, which has altered the format and content of the basic financial statements.



To the People of Kentucky  
Honorable Ernie Fletcher, Governor  
Robbie Rudolph, Secretary  
Finance and Administration Cabinet  
Honorable David Jenkins, Spencer County Judge/Executive  
Members of the Spencer County Fiscal Court

The management's discussion and analysis and budgetary comparison information are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with Government Auditing Standards, we have also issued our report dated May 2, 2005 on our consideration of Spencer County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", written in a cursive style.

Crit Luallen  
Auditor of Public Accounts

Audit fieldwork completed -  
May 2, 2005



SPENCER COUNTY OFFICIALS

For The Year Ended June 30, 2004

**Fiscal Court Members:**

David Jenkins	County Judge/Executive
David Henry	Magistrate
Anthony Travis	Magistrate
Bill Shelburne	Magistrate
Bill Drury	Magistrate
David Goodlett	Magistrate

**Other Elected Officials:**

Ruth Ann Hollan	County Attorney
David Houghlin	Jailer
Judy Puckett	County Clerk
Phyllis Shafar	Circuit Court Clerk
Steve Coulter	Sheriff
John "Sammy" Crafton	Property Valuation Administrator
Roger Thurman	Coroner

**Appointed Personnel:**

Doug Williams	County Treasurer
Karen Curtsinger	Finance Officer/Deputy Judge





## **DAVID JENKINS, SPENCER COUNTY JUDGE EXECUTIVE**

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**Spencer County** *"A Great Place to Live, Work and Play"*  
P.O. Box 397 ~ Taylorsville, KY 40071 ~ (502) 477-3205

### **Management's Discussion and Analysis June 30, 2004**

The financial management of Spencer County, Kentucky offers readers of Spencer County's financial statements this narrative overview and analysis of the financial activities of Spencer County for the fiscal year ended June 30, 2004. We encourage readers to consider the information here in conjunction with other information that has been furnished in our letter of transmission and the notes to the financial statements.

#### **FINANCIAL HIGHLIGHTS**

Spencer County had net assets of \$2,339,546 as of June 30, 2004. Unrestricted net assets are \$814,593. \$103,950 is restricted for debt service. \$1,421,003 is invested in capital assets, net of related debt.

Being the first year of this GASB 34 type audit we are not comparing to prior years in relation to fixed assets and depreciation.

At the close of fiscal year 2004 Spencer County's balance sheet reported a fund balance of \$918,543.

FYE 2004 depreciation expense was \$175,228. Asset value as of June 30, 2004 is \$3,303,749.

Spencer County's total indebtedness at the close of fiscal year 2004 was \$964,203. Courthouse renovation is the biggest debt we have. Many new vehicles have been purchased for the road dept., ambulance and sheriff's department.

Spencer County's park department is growing. Now with a full-time parks director new parks are growing and more programs implemented through Spencer County's general fund. State funds of \$250,000 helped get the new parks at Waterford and Taylorsville started.

Spencer County's jail prisoners are housed in neighboring counties. This is of some expense (\$23.00/day) but cheaper than building and staffing our own jail.

#### **OVERVIEW OF THE FINANCIAL STATEMENTS**

The management discussion and analysis is intended to serve as an introduction to Spencer County's basic financial statements. Spencer County's financial statements are comprised of three components: 1) government wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

GASB 34 requires management to include certain comparison schedules when they are available. These schedules include prior and current comparisons of general revenues by major source, and program expenses by function. This is the first year of implementation and these schedules will be presented next year.

## **GOVERNMENT-WIDE FINANCIAL STATEMENTS**

The Government-wide Financial Statements are designed to provide readers with a broad overview of Spencer County's finances, in a manner similar to a private-sector business.

The Statement of Net Assets presents information on all of Spencer County's assets and liabilities with the difference of the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of Spencer county is improving or not.

The Statement of Activities presents information showing how the government's net assets changed during the fiscal year. All changes in net assets are reported on a modified cash basis of accounting. Basis of accounting is a reference to when financial events are recorded, such as the timing for recognizing revenues, expenses, and related assets and liabilities.

Under the county's modified cash basis of accounting, revenues and expenses and related assets and liabilities are recorded when they result from a cash transaction, except for the recording of depreciation expenses on capital assets in the government-wide financial statements for all activities and in the fund financial statements for the proprietary fund financial statements.

As a result of the use of this modified cash basis of accounting, certain assets and their related revenues and accounts payable or compensated absences are not recorded.

Both of the government-wide financial statements distinguish functions of the county that are principally supported by taxes and intergovernmental revenues from other functions that are intended to recover all or a significant portion of their costs from user fees and charges. Spencer County's financial activities include general governmental, protection to persons and property, roads, recreation and social services.

The government-wide financial statements include not only Spencer County itself but also legally separate entities, which have a significant operational or financial relationship with the county.

## **FUND FINANCIAL STATEMENTS**

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Spencer County, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with financial related legal requirements. All of the funds of Spencer County can be divided into one broad category: governmental funds.

## **GOVERNMENTAL FUNDS**

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. Governmental fund financial statements focus on current inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's current financial requirements.

## **GOVERNMENTAL FUNDS (Continued)**

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's current financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Spencer County maintains four individual governmental funds. Information is presented separately in the governmental balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, road fund, jail fund, and the Public Properties Corporation bond fund.

Spencer County adopts an annual appropriated budget for its major governmental funds. A budgetary comparison statement has been provided for each of these funds to demonstrate compliance with their budgets.

## **NOTES TO THE FINANCIAL STATEMENTS**

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

**NET ASSETS.** As noted earlier, net assets may serve over time as a useful indicator of the government's financial position.

### **CHANGE IN NET ASSETS**

2004 current cash and cash equivalents are \$918,543. Total non-current assets are \$2,385,266 making total assets \$3,303,749.

Liabilities for FYE 2004 are \$964,203.

Total net assets for FYE 2004 is \$2,339,546.

## **FINANCIAL ANALYSIS OF THE COUNTY'S FUNDS**

Spencer County fiscal court uses fund accounting to insure and demonstrate compliance with finance related legal requirements.

*Governmental Funds Overview.* The focus of the audit is to share information on current inflows, outflows, and balances of spendable reserves. Unreserved fund balance may serve as a useful measure of a governmental net resource available for spending at the end of the fiscal year.

At the end of June 30, 2004 fiscal year the combined ending fund balance of Spencer County's government funds were \$918,543. The audit looks at four major funds that the county uses: General Fund, Road Fund, Jail Fund, and Spencer County Public Properties Corporation Bond Fund.

1. General fund ending fund balance was \$653,538. Most of the county's services are provided through this fund. We had to transfer \$145,000 to the jail fund to meet jail budget needs.

Spencer County  
Management's Discussion and Analysis  
June 30, 2004  
(Continued)

**FINANCIAL ANALYSIS OF THE COUNTY'S FUNDS (Continued)**

2. Road fund ending fund balance was \$142,300. On July 1, 2004 the last of road fund bond payments will be made. More funds will be available to work on roads next year.

3. Jail fund ending fund balance was \$18,755. We pay jailer and other transport officers to transport our prisoners to the county where they are housed and to get to court. We house our prisoners in almost all surrounding counties.

4. Spencer County Public Properties Corporation bond fund ending balance was \$103,950. This money came from the road fund to pay off the road bonds note for the year. The last payment is to be made on July 1, 2004.

**GENERAL FUND BUDGETARY HIGHLIGHTS**

Spencer County's total general fund budget was originally \$1,959,834 for expenditures. Spencer County's general fund budgeted expenditures were amended during the fiscal year increasing the budgeted amount by \$366,307. Total receipts were \$2,249,747. General fund receipts exceeded the budget by \$274,856. Increased receipts of property taxes, planning & zoning fees, inspection fees, ambulance fees, and sheriff fee pooling are some of the reasons for this increase.

**ROAD FUND BUDGETARY HIGHLIGHTS**

Spencer County's original road fund budget was \$732,955 and was amended during the fiscal year increasing the budgeted amount by \$248,809, with actual road receipts for year of \$904,837. Receipts exceeded budget by \$4,438. The last road fund bond payment was made out of this year's monies.

**JAIL FUND BUDGETARY HIGHLIGHTS**

Spencer County's original jail fund budget was \$241,250 with amendments during the fiscal year of \$53,013. Actual receipts were \$64,100. Receipts were short of budget by \$12,960. \$145,000 was transferred in from the general fund to cover our jail fund expenses.

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

*Capital Assets:* As of June 30, 2004, capital assets were valued at \$1,031,452 for general government; protection to persons and property at \$331,992; roads at \$498,645; recreation and culture at \$233,755; social services at \$198,152; and general health and sanitation at \$91,210.

*Long-term Debt:* As of June 30, 2004, long-term liabilities outstanding were \$720,014.

*Short-term debt:* As of June 30, 2004, short-term liabilities were \$244,189 outstanding.

**REQUESTS FOR INFORMATION**

This financial report is designed to provide a general overview of Spencer County's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Spencer County Treasurer, P.O. Box 397, Taylorsville, Kentucky 40071.

**SPENCER COUNTY**  
**STATEMENT OF NET ASSETS - MODIFIED CASH BASIS**

**June 30, 2004**





**SPENCER COUNTY**  
**STATEMENT OF NET ASSETS - MODIFIED CASH BASIS**

**June 30, 2004**

	<b><u>Governmental Activities</u></b>
<b>ASSETS</b>	
Current Assets:	
Cash and Cash Equivalents	\$ 918,543
Total Current Assets	<u>918,543</u>
Noncurrent Assets:	
Capital Assets - Net of Accumulated Depreciation	
Land and Land Improvements	280,692
Buildings	1,333,396
Equipment	251,139
Vehicles	322,734
Infrastructure Assets - Net of Depreciation	<u>197,245</u>
Total Noncurrent Assets	<u>2,385,206</u>
Total Assets	<u>3,303,749</u>
<b>LIABILITIES</b>	
Current Liabilities:	
Bonds	100,000
Financing Obligations	<u>144,189</u>
Total Current Liabilities	<u>244,189</u>
Noncurrent Liabilities:	
Financing Obligations	<u>720,014</u>
Total Noncurrent Liabilities	<u>720,014</u>
Total Liabilities	<u>964,203</u>
<b>NET ASSETS</b>	
Invested in Capital Assets, Net of Related Debt	1,421,003
Restricted For:	
Debt Service	103,950
Unrestricted	<u>814,593</u>
Total Net Assets	<u><u>\$ 2,339,546</u></u>

The accompanying notes are an integral part of the financial statements.

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**SPENCER COUNTY**  
**STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**  
**For The Year Ended June 30, 2004**

**SPENCER COUNTY**  
**STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2004**

		Program Revenues Received	
Functions/Programs Reporting Entity	Expenses	Charges for Services	Operating Grants and Contributions
Primary Government:			
Governmental Activities:			
General Government	\$ 1,283,541	\$ 365,942	\$ 394,614
Protection to Persons and Property	788,152	371,185	157,763
General Health and Sanitation	88,141	6,756	19,491
Social Services	20,430		
Recreation and Culture	71,571	18,211	
Roads	393,031	344	902,354
Debt Service	50,058		
Capital Projects	36,711		
Total Governmental Activities	2,731,635	762,438	1,474,222
General Revenues:			
Taxes:			
Real Property Taxes			
Personal Property Taxes			
Motor Vehicle Taxes			
Other Taxes			
Excess Fees			
In Lieu of Taxes			
Gain on Sale of Vehicles & Equipment			
Miscellaneous Revenues			
Interest Received			
Total General Revenues			
Change in Net Assets			
Net Assets - Beginning (Restated)			
Net Assets - Ending			

The accompanying notes are an integral part of the financial statements.

**SPENCER COUNTY**  
**STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**  
**For The Year Ended June 30, 2004**  
**(Continued)**

<b>Net (Expenses) Revenues and Changes in Net Assets</b>	
<b>Primary Government</b>	
<b>Governmental Activities</b>	<b>Totals</b>
\$ (522,985)	\$ (522,985)
(259,204)	(259,204)
(61,894)	(61,894)
(20,430)	(20,430)
(53,360)	(53,360)
509,667	509,667
(50,058)	(50,058)
(36,711)	(36,711)
<u>(494,975)</u>	<u>(494,975)</u>
488,881	488,881
14,821	14,821
92,710	92,710
244,113	244,113
97,455	97,455
17,367	17,367
4,339	4,339
69,160	69,160
5,139	5,139
<u>1,033,985</u>	<u>1,033,985</u>
539,010	539,010
<u>1,800,536</u>	<u>1,800,536</u>
<u>\$ 2,339,546</u>	<u>\$ 2,339,546</u>

The accompanying notes are an integral part of the financial statements.

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**SPENCER COUNTY**  
**BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**

**June 30, 2004**





**SPENCER COUNTY**  
**BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**

**June 30, 2004**

	<b>General Fund</b>	<b>Road Fund</b>	<b>Jail Fund</b>	<b>Public Properties Corporation Bond Fund</b>	<b>Total Governmental Funds</b>
<b>ASSETS</b>					
Cash and Cash Equivalents	\$ 653,538	\$ 142,300	\$ 18,755	\$ 103,950	\$ 918,543
Total Assets	<u>\$ 653,538</u>	<u>\$ 142,300</u>	<u>\$ 18,755</u>	<u>\$ 103,950</u>	<u>\$ 918,543</u>
<b>FUND BALANCES</b>					
Reserved for:					
Encumbrances	\$ 149,506	\$ 132	\$	\$	\$ 149,638
Unreserved:					
General Fund	504,032				504,032
Special Revenue Funds		142,168	18,755		160,923
Debt Service Fund				103,950	103,950
Total Fund Balances	<u>\$ 653,538</u>	<u>\$ 142,300</u>	<u>\$ 18,755</u>	<u>\$ 103,950</u>	<u>\$ 918,543</u>

**Reconciliation to Statement of Changes In Net Assets:**

Total Fund Balances	\$ 918,543
Amounts Reported For Governmental Activities In The Statement	
Of Net Assets Are Different Because:	
Capital Assets Used in Governmental Activities Are Not Financial Resources	
And Therefore Are Not Reported in the Funds.	3,183,243
Depreciation	(798,037)
Long-term debt is not due and payable in the current period and, therefore, is not reported in the funds.	
Financing Obligations	(864,203)
Bonded Debt	<u>(100,000)</u>
Net Assets Of Governmental Activities	<u>\$ 2,339,546</u>

The accompanying notes are an integral part of the financial statements.

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**SPENCER COUNTY**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2004**

**SPENCER COUNTY**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2004**

	<b>General Fund</b>	<b>Road Fund</b>	<b>Jail Fund</b>
<b>REVENUES</b>			
Taxes	\$ 825,802	\$	\$
In Lieu Tax Payments	17,367		
Excess Fees	97,455		
Licenses and Permits	348,070		
Intergovernmental	594,741	902,354	59,998
Charges for Services	368,418		
Miscellaneous	51,750	2,125	3,926
Interest	4,599	358	176
Total Revenues	<u>2,308,202</u>	<u>904,837</u>	<u>64,100</u>
<b>EXPENDITURES</b>			
General Government	794,617	26,403	
Protection to Persons and Property	586,619		240,360
General Health and Sanitation	84,780		
Social Services	17,166		
Recreation and Culture	140,221		
Roads		560,081	
Debt Service	156,509	52,439	
Capital Projects	36,711		
Administration	347,822	98,829	6,638
Total Expenditures	<u>2,164,445</u>	<u>737,752</u>	<u>246,998</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>143,757</u>	<u>167,085</u>	<u>(182,898)</u>
<b>Other Financing Sources (Uses)</b>			
Transfers From Other Funds			145,000
Transfers To Other Funds	<u>(145,000)</u>	<u>(106,000)</u>	
Total Other Financing Sources (Uses)	<u>(145,000)</u>	<u>(106,000)</u>	<u>145,000</u>
Net Change in Fund Balances	(1,243)	61,085	(37,898)
Fund Balances - Beginning	654,781	81,215	56,653
Fund Balances - Ending	<u>\$ 653,538</u>	<u>\$ 142,300</u>	<u>\$ 18,755</u>

The accompanying notes are an integral part of the financial statements.

**SPENCER COUNTY**  
**STATEMENT OF REVENUES, EXPENDITURES,**  
**AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**  
**For The Year Ended June 30, 2004**  
**(Continued)**

<b>Public Properties Corporation Bond Fund</b>	<b>Total Governmental Funds</b>
\$	\$ 825,802
	17,367
	97,455
	348,070
	1,557,093
	368,418
	57,801
5	5,138
5	3,277,144
	821,020
	826,979
	84,780
	17,166
	140,221
	560,081
103,853	312,801
	36,711
	453,289
103,853	3,253,048
(103,848)	24,096
106,000	251,000
	(251,000)
106,000	
2,152	24,096
101,798	894,447
\$ 103,950	\$ 918,543

The accompanying notes are an integral part of the financial statements.

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**SPENCER COUNTY  
RECONCILIATION OF THE STATEMENT OF REVENUES,  
EXPENDITURES, AND CHANGES IN FUND BALANCES OF  
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2004**





**SPENCER COUNTY**  
**RECONCILIATION OF THE STATEMENT OF REVENUES,**  
**EXPENDITURES, AND CHANGES IN FUND BALANCES OF**  
**GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2004**

**Reconciliation to the Statement of Activities:**

Net Change in Fund Balances - Total Governmental Funds	\$	24,096
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Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense.

Capital Outlay		433,899
Depreciation Expense		(175,228)
Difference between amount of proceeds of capital assets sold and gain reported		(6,500)
Bond and lease principal payments are expensed in the Governmental Funds as a use of current financial resources.		
Bond Payments		95,000
Financing Obligations		<u>167,743</u>
Change in Net Assets of Governmental Activities	\$	<u><u>539,010</u></u>

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TO THE FINANCIAL STATEMENTS**

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**SPENCER COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2004**

**Note 1. Summary of Significant Accounting Policies**

**A. Basis of Presentation**

The county presents its government-wide and fund financial statements in accordance with a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Property tax receivables, accounts payable, compensated absences, and donated assets, among other items, are not reflected in the financial statements.

Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance (Reserved for Encumbrances).

The State Local Finance Officer does not require the county to report capital assets and infrastructure; however the value of these assets is included in the Statement of Net Assets and the corresponding depreciation expense is included on the Statement of Activities.

**B. Reporting Entity**

The financial statements of Spencer County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Consequently, the reporting entity includes organizations that are legally separate from the primary government. Legally separate organizations are reported as component units if either the county is financially accountable or the organization's exclusion would cause the county's financial statements to be misleading or incomplete. Component units may be blended or discretely presented. Blended component units either provide their services exclusively or almost entirely to the primary government, or their governing bodies are substantively the same as the primary government. All other component units are discretely presented.

Blended Component Unit

The following legally separate organization provides services exclusively to the primary government, and the fiscal court is able to impose its will on this organization. This organization's balances and transactions are reported as though they are part of the county's primary government using the blending method.

**SPENCER COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2004**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**B. Reporting Entity (Continued)**

Blended Component Unit (Continued)

Spencer County Public Properties Corporation

The Public Properties Corporation (PPC) was created for the financing of road construction and repair in Spencer County. Fiscal Court has the authority to appoint a voting majority of the PPC's board of directors and the PPC was deemed a component unit of the County. Financial information for the Public Facilities Corporation is blended within Spencer County's financial statements.

Additional - Spencer County Elected Officials

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

Kentucky law provides for election of the officials above from the geographic area constituting Spencer County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices.

**C. Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its non-fiduciary component units. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on sales, fees, and charges for support. Spencer County does not have any business-type activities to report in its financial statements.

The government-wide statements are reported using the economic resources measurement focus and the modified cash basis of accounting. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. Property tax receivables, accounts payable, compensated absences, and donated assets are not reflected in the financial statements.

**SPENCER COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2004**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**C. Government-wide and Fund Financial Statements (Continued)**

The statement of net assets presents the reporting entity's assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets - resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; and 3) unrestricted net assets - those assets that do not meet the definition of restricted net assets or invested in capital assets.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; 2) operating grants and contributions; and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.

Funds are characterized as either major or non-major. Major funds are those whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds or type (governmental). The fiscal court may also designate any fund as major.

Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the financial statements.

**Governmental Funds**

The primary government reports the following major governmental funds:

**General Fund** - This is the primary operating fund of the fiscal court. It accounts for all financial resources of the general government, except where the Governor's Office for Local Development requires a separate fund or where management requires that a separate fund be used for some function.

**Road Fund** - This fund is for road and bridge construction and repair. The primary source of revenue for this fund is state payments for truck license distribution, municipal road aid, and transportation grants. The Governor's Office for Local Development requires the fiscal court to maintain these revenues and expenditures separately from the General Fund.

**SPENCER COUNTY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2004  
(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**C. Government-wide and Fund Financial Statements (Continued)**

**Governmental Funds (Continued)**

Jail Fund - The primary purpose of this fund is to account for the jail expenses of the county. The primary sources of revenue for this fund are reimbursements from the state and federal government, payments from other counties for housing prisoners, and transfers from the General Fund. The Governor's Office for Local Development requires the fiscal court to maintain these revenues and expenditures separately from the General Fund.

Spencer County Public Properties Corporation Bond Fund - The purpose of this fund is to account for debt service requirements of revenue bonds of the fiscal court. The Governor's Office for Local Development does not require the fiscal court to report or budget these funds.

Generally and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount November 30, due at face value December 31, delinquent January 1 following the assessment, and subject to lien and sale the 3rd Saturday in April following the delinquency date.

**D. Deposits and Investments**

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

**SPENCER COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2004**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**E. Capital Assets**

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported in the applicable governmental or business-type activities of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land and Construction In Progress are not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 12,500	10-60
Buildings and Building Improvements	\$ 25,000	10-50
Machinery and Equipment	\$ 2,500	3-25
Vehicles	\$ 2,500	3-25
Infrastructure	\$ 20,000	10-50

**F. Long-term Obligations**

In the government-wide financial statements, long term debt and other long-term obligations are reported as liabilities in the applicable financial statements. The principal amount of bonds and financial obligations are reported.

In the fund financial statements, governmental fund types recognize bond interest when paid, during the current period. The principal amount of the debt and interest are reported as expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds are reported as other financing sources.

**SPENCER COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2004**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**G. Fund Equity**

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into reserved and unreserved components, with unreserved considered available for new spending. Unreserved fund balances may be divided into designated and undesignated portions. Designations represent fiscal court's intended use of the resources and should reflect actual plans approved by the fiscal court.

Governmental funds report reservations of fund balance for amounts that are legally restricted by outside parties for use for a specific purpose, long-term receivables, and encumbrances.

"Reserved for Encumbrances" are purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, the fiscal court incurs no liability until performance has occurred on the part of the party with whom the fiscal court has entered into the arrangement. When a government intends to honor outstanding commitments in subsequent periods, such amounts are encumbered. Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however, encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance.

**H. Budgetary Information**

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

A formal budget is not adopted for the Public Properties Corporation Bond Fund because bond indentures and other relevant contractual provisions require specific payments to and from this fund annually and transfers are budgeted in the governmental funds to comply with these requirements. The Governor's Office for Local Development does not require this fund to be budgeted.



**SPENCER COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2004**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**I. Related Organizations, Joint Venture, and Jointly Governed Organizations**

A related organization is an entity for which a primary government is not financially accountable. It does not impose will or have a financial benefit or burden relationship, even if the primary government appoints a voting majority of the related organization's governing board. Based on these criteria, the following are considered related organizations of Spencer County Fiscal Court: The Spencer County Tourism Commission and the Spencer County Library.

A legal entity or other organization that results from a contractual agreement and that is owned, operated, or governed by two or more participants as a separate activity subject to joint control, in which the participants retain (a) an ongoing financial interest or (b) an ongoing financial responsibility is a joint venture. Based upon these criteria, the following is considered a joint venture of the Spencer County Fiscal Court: and the City of Taylorsville: Taylorsville-Spencer County Community Industrial Development Authority.

**Note 2. Deposits and Investments**

**A. Deposits**

The primary government and component units maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met, and as of June 30, 2004, the primary government and component units' deposits were fully insured or collateralized at a 100% level with collateral of either pledged securities held by the county's agent in the county's name, or provided surety bond which named the primary government or component units as beneficiary/obligee on the bond.

**SPENCER COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2004**  
**(Continued)**

**Note 2. Deposits and Investments (Continued)**

**B. Investments**

The county's investments are categorized below to give an indication of the level of risk assumed by the county at year-end. Category 1 includes investments that are insured or registered or the securities are held by the county or by the county's agent in the county's name. Category 2 includes uninsured and unregistered investments where the securities are held by the financial institution in the county's name. Category 3 includes uninsured and unregistered investments where the securities were held by the financial institution, but not in the county's name.

	Category			Carrying	Market
Investments	1	2	3	Amount	Value
<b>Primary Government:</b>					
Governmental					
Securities	\$ 103,120	\$	\$	\$ 103,120	\$ 103,120

**SPENCER COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2004**  
**(Continued)**

**Note 3. Capital Assets**

Capital asset activity for the year ended June 30, 2004 was as follows:

	Reporting Entity			
	Beginning Balance	Increases	Decreases	Ending Balance
<u>Governmental Activities:</u>				
Capital Assets Not Being Depreciated:				
Land	\$ 204,600	\$	\$	\$ 204,600
Total Capital Assets Not Being Depreciated	204,600			204,600
Capital Assets, Being Depreciated:				
Buildings	1,613,124			1,613,124
Equipment	298,250	72,866	(20,000)	351,116
Vehicles	731,770	62,610	(78,400)	715,980
Land Improvements		79,262		79,262
Infrastructure *		219,161		219,161
Total Capital Assets Being Depreciated	2,643,144	433,899	(98,400)	2,978,643
Less Accumulated Depreciation For:				
Buildings	(248,883)	(30,845)		(279,728)
Equipment	(97,861)	(20,116)	18,000	(99,977)
Vehicles	(367,965)	(99,181)	73,900	(393,246)
Land Improvements		(3,170)		(3,170)
Infrastructure		(21,916)		(21,916)
Total Accumulated Depreciation	(714,709)	(175,228)	91,900	(798,037)
Total Capital Assets, Being Depreciated, Net	1,928,435	258,671	(6,500)	2,180,606
Governmental Activities Capital Assets, Net	\$ 2,133,035	\$ 258,671	\$ (6,500)	\$ 2,385,206

\* County has elected to report current infrastructure costs only.

**SPENCER COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2004**  
**(Continued)**

**Note 3. Capital Assets (Continued)**

Depreciation expense was charged to functions of the primary government as follows:

Governmental Activities:

General Government	\$ 21,149
Protection to Persons and Property	64,571
General Health and Sanitation	3,361
Social Services	3,264
Recreation and Culture	14,047
Roads, Including Depreciation of General Infrastructure Assets	<u>68,836</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 175,228</u>

**Note 4. Long-term Debt**

**A. Public Properties Corporation Revenue Bonds**

Bonds outstanding Public Properties Corporation Bond Fund is \$100,000 as of June 30, 2004. These bonds were issued on July 1, 1984, at various interest rates ranging from 9 percent to 12.75 percent per the Spencer County Public Properties Corporation for road construction and repair.

These outstanding 1984 Series A Bonds were refunded on January 1, 1995, by the application of the proceeds of the bonds. The refunded bond plan was undertaken to obtain lower interest rates of 4.5 percent to 6 percent. The following table shows the scheduled interest and principal amounts due during the next fiscal year.

Fiscal Year Ended June 30	Governmental Activities	
	Scheduled Principal	Scheduled Interest
2005	<u>\$ 100,000</u>	<u>\$ 3,000</u>
Totals	<u>\$ 100,000</u>	<u>\$ 3,000</u>

**SPENCER COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2004**  
**(Continued)**

**Note 4. Long-term Debt (Continued)**

**B. Financing Obligation - Dump Truck**

On April 18, 2001, Spencer County Fiscal Court entered into an agreement with the Kentucky Association of Counties Leasing Trust (KACoLT) Program for \$52,000. The purpose of the financing was for the purchase of a dump truck. The term for this agreement was 5 years with the balance to be paid in full April 20, 2006. The principal balance was \$20,172 as of June 30, 2004. The following table shows the scheduled remaining interest and principal amounts due.

Fiscal Year Ended June 30	Governmental Activities	
	Scheduled Principal	Scheduled Interest
2005	\$ 10,871	\$ 117
2006	9,301	33
Totals	<u>\$ 20,172</u>	<u>\$ 150</u>

**C. Financing Obligation - Loader**

On July 20, 2001, Spencer County Fiscal Court entered into an agreement with the Kentucky Association of Counties Leasing Trust (KACoLT) Program for \$52,000. The purpose of the financing was for the purchase of a loader. The term for this agreement was 5 years with the balance to be paid in full January 20, 2006. The principal balance was \$25,000 as of June 30, 2004. The following table shows the scheduled remaining interest and principal amounts due.

Fiscal Year Ended June 30	Governmental Activities	
	Scheduled Principal	Scheduled Interest
2005	\$ 10,000	\$ 940
2006	15,000	395
Totals	<u>\$ 25,000</u>	<u>\$ 1,335</u>

**SPENCER COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2004**  
**(Continued)**

**Note 4. Long-term Debt (Continued)**

**D. Financing Obligation - Road Paver**

On September 21, 2001, Spencer County Fiscal Court entered into an agreement with the Kentucky Association of Counties Leasing Trust (KACoLT) Program for \$30,000. The purpose of the financing was for the purchase of a road paver. The term for this agreement was 5 years with the balance to be paid in full September 20, 2006. The principal balance was \$14,081 as of June 30, 2004. The following table shows the scheduled remaining interest and principal amounts due.

Fiscal Year Ended June 30	Governmental Activities	
	Scheduled Principal	Scheduled Interest
2005	\$ 6,145	\$ 77
2006	6,326	34
2007	1,610	2
Totals	<u>\$ 14,081</u>	<u>\$ 113</u>

**E. Financing Obligation - Courthouse Renovation**

On September 21, 2001, Spencer County Fiscal Court entered into an agreement with the Kentucky Association of Counties Leasing Trust (KACoLT) Program for \$900,625. The purpose of the financing was for the renovation of the courthouse. The term for this agreement was 10 years with the balance to be paid in full January 20, 2011. The Administrative Office of the Courts (AOC) pays \$29,850 directly to the trustee for KACoLT, National City Bank each February and August. The principal balance was \$671,802 as of June 30, 2004. The following table shows the scheduled remaining interest and principal amounts due.

Fiscal Year Ended June 30	Governmental Activities	
	Scheduled Principal	Scheduled Interest
2005	\$ 83,444	\$ 29,249
2006	87,308	25,344
2007	91,350	21,258
2008	95,580	16,983
2009	100,005	12,510
2010-2011	214,115	10,761
Totals	<u>\$ 671,802</u>	<u>\$ 116,105</u>

**SPENCER COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2004**  
**(Continued)**

**Note 4. Long-term Debt (Continued)**

**F. Financing Obligation - Dump Truck**

On September 24, 2002, Spencer County Fiscal Court entered into an agreement with the Kentucky Association of Counties Leasing Trust (KACoLT) Program for \$48,000. The purpose of the financing was for the purchase of a dump truck. The term for this agreement was 5 years with the balance to be paid in full October 20, 2007. The principal balance was \$32,820 as of June 30, 2004. The following table shows the scheduled remaining interest and principal amounts due.

Fiscal Year Ended June 30	Governmental Activities	
	Scheduled Principal	Scheduled Interest
2005	\$ 9,511	\$ 849
2006	9,794	566
2007	10,086	275
2008	3,429	26
Totals	<u>\$ 32,820</u>	<u>\$ 1,716</u>

**G. Financing Obligation - Dump Truck**

On June 24, 2003, Spencer County Fiscal Court entered into an agreement with the Kentucky Association of Counties Leasing Trust (KACoLT) Program for \$65,000. The purpose of the financing was for the purchase of a dump truck. The term for this agreement was 5 years with the balance to be paid in full July 20, 2008. The principal balance was \$54,805 as of June 30, 2004. The following table shows the scheduled remaining interest and principal amounts due.

Fiscal Year Ended June 30	Governmental Activities	
	Scheduled Principal	Scheduled Interest
2005	\$ 13,579	\$ 1,817
2006	12,956	1,065
2007	13,350	670
2008	13,755	262
2009	1,165	3
Totals	<u>\$ 54,805</u>	<u>\$ 3,817</u>

**SPENCER COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2004**  
**(Continued)**

**Note 4. Long-term Debt (Continued)**

**H. Financing Obligation - Ambulance**

On June 24, 2003, Spencer County Fiscal Court entered into an agreement with the Kentucky Association of Counties Leasing Trust (KACoLT) Program for \$55,000. The purpose of the financing was for the purchase of an ambulance. The term for this agreement was 5 years with the balance to be paid in full July 20, 2008. The principal balance was \$45,523 as of June 30, 2004. The following table shows the scheduled remaining interest and principal amounts due.

Fiscal Year Ended June 30	Governmental Activities	
	Scheduled Principal	Scheduled Interest
2005	\$ 10,639	\$ 1,225
2006	10,963	902
2007	11,296	566
2008	11,639	222
2009	986	3
Totals	<u>\$ 45,523</u>	<u>\$ 2,918</u>

**I. Financing Obligation - Vehicle and Telephone**

The fiscal court paid off early an obligation with the Kentucky Association of Counties Leasing Trust Program. The amount of early payment of principal was \$7,491. The agreement was originally to be paid in full on January 20, 2005.

**J. Financing Obligation - Ambulance**

The fiscal court paid off early an obligation with the Kentucky Association of Counties Leasing Trust Program. The amount of early payment of principal was \$4,680. The agreement was originally to be paid in full on January 20, 2005.

**K. Changes In Long-Term Liabilities**

Long-term liability activity for the year ended June 30, 2004, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<u>Governmental Activities:</u>					
Revenue Bonds	\$ 195,000	\$	\$ 95,000	\$ 100,000	\$ 100,000
Financing Obligations	1,031,946		167,743	864,203	144,189
Governmental Activities					
Long-term Liabilities	<u>\$ 1,226,946</u>	<u>\$ 0</u>	<u>\$ 262,743</u>	<u>\$ 964,203</u>	<u>\$ 244,189</u>



**SPENCER COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2004**  
**(Continued)**

**Note 5. Interest On Long-term Debt and Financing Obligations**

Debt Service on the Statement of Activities includes \$41,067 in interest on financing obligations and \$8,850 in interest on bonds.

**Note 6. Employee Retirement System**

The county has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple-employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 7.34 percent. Hazardous covered employees are required to contribute 8 percent of their salary to the plan. The county's contribution rate for hazardous employees was 18.51 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement System, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

**Note 7. Insurance**

For the fiscal year ended June 30, 2004, Spencer County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

**Note 8. Changes in Accounting Principles and Prior Period Adjustments**

The county has implemented Governmental Accounting Standards Board (GASB) Statements 33, 34 and 37, as they relate to the modified cash basis of accounting as described in Note 1, which has altered the format and content of the basic financial statements. The effect of this change on the beginning net assets of the governmental is an increase of \$906,089 due to capital assets previously not reported.

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**SPENCER COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Required Supplementary Information - Modified Cash Basis**  
**For The Year Ended June 30, 2004**



**SPENCER COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Required Supplementary Information - Modified Cash Basis**

**For The Year Ended June 30, 2004**

	<b>GENERAL FUND</b>			
	<b>Budgeted Amounts</b>		<b>Actual</b>	<b>Variance with</b>
	<b>Original</b>	<b>Final</b>	<b>Amounts, (Budgetary Basis)</b>	<b>Final Budget Positive (Negative)</b>
<b>REVENUES</b>				
Taxes	\$ 730,000	\$ 732,930	\$ 825,802	\$ 92,872
In Lieu Tax Payments	14,000	14,000	17,367	3,367
Excess Fees	50,000	50,000	97,455	47,455
Licenses and Permits	264,200	289,140	348,070	58,930
Intergovernmental Revenue	429,184	525,184	536,286	11,102
Charges for Services	313,800	315,356	368,418	53,062
Miscellaneous	8,500	39,781	51,750	11,969
Interest	8,500	8,500	4,599	(3,901)
Total Revenues	<u>1,818,184</u>	<u>1,974,891</u>	<u>2,249,747</u>	<u>274,856</u>
<b>EXPENDITURES</b>				
General Government	759,256	865,626	794,617	71,009
Protection to Persons and Property	521,603	685,903	586,619	99,284
General Health and Sanitation	73,454	91,554	84,780	6,774
Social Services	27,400	28,400	17,166	11,234
Recreation and Culture	100,000	142,500	140,221	2,279
Debt Service	88,500	99,502	98,054	1,448
Capital Projects	70,000	44,998	36,711	8,287
Administration	319,621	367,658	347,822	19,836
Total Expenditures	<u>1,959,834</u>	<u>2,326,141</u>	<u>2,105,990</u>	<u>220,151</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(141,650)</u>	<u>(351,250)</u>	<u>143,757</u>	<u>(495,007)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Financing Obligation Proceeds	2,200	2,200		2,200
Transfers To Other Funds	<u>(160,550)</u>	<u>(160,550)</u>	<u>(145,000)</u>	<u>(15,550)</u>
Total Other Financing Sources (Uses)	<u>(158,350)</u>	<u>(158,350)</u>	<u>(145,000)</u>	<u>(13,350)</u>
Net Changes in Fund Balance	(300,000)	(509,600)	(1,243)	(508,357)
Fund Balance - Beginning	<u>300,000</u>	<u>510,000</u>	<u>654,781</u>	<u>(144,781)</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 400</u>	<u>\$ 653,538</u>	<u>\$ (653,138)</u>

**SPENCER COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Required Supplementary Information - Modified Cash Basis**  
**For The Year Ended June 30, 2004**  
**(Continued)**

	<b>ROAD FUND</b>			
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
<b>REVENUES</b>				
Intergovernmental Revenue	\$ 705,255	\$ 897,849	\$ 902,354	\$ 4,505
Miscellaneous	1,200	1,200	2,125	925
Interest	1,350	1,350	358	(992)
Total Revenues	707,805	900,399	904,837	4,438
<b>EXPENDITURES</b>				
General Government	26,403	26,403	26,403	
Roads	447,852	691,931	560,081	131,850
Debt Service	158,500	158,800	52,439	106,361
Administration	100,200	104,630	98,829	5,801
Total Expenditures	732,955	981,764	737,752	244,012
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(25,150)	(81,365)	167,085	248,450
<b>OTHER FINANCING SOURCES (USES)</b>				
Financing Obligation Proceeds	150	150		150
Transfers To Other Funds			(106,000)	106,000
Total Other Financing Sources (Uses)	150	150	(106,000)	106,150
Net Changes in Fund Balance	(25,000)	(81,215)	61,085	(142,300)
Fund Balance - Beginning	25,000	81,215	81,215	
Fund Balance - Ending	\$ 0	\$ 0	\$ 142,300	\$ (142,300)

**SPENCER COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Required Supplementary Information - Modified Cash Basis**  
**For The Year Ended June 30, 2004**  
**(Continued)**

	JAIL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 55,000	\$ 72,510	\$ 59,998	\$ (12,512)
Miscellaneous		3,850	3,926	76
Interest	700	700	176	(524)
Total Revenues	55,700	77,060	64,100	(12,960)
EXPENDITURES				
Protection to Persons and Property	232,000	286,963	240,360	46,603
Administration	9,250	7,300	6,738	562
Total Expenditures	241,250	294,263	247,098	47,165
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(185,550)	(217,203)	(182,998)	34,205
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	160,550	160,550	145,000	(15,550)
Total Other Financing Sources (Uses)	160,550	160,550	145,000	(15,550)
Net Changes in Fund Balance	(25,000)	(56,653)	(37,998)	18,655
Fund Balance - Beginning	25,000	56,653	56,653	
Fund Balance - Ending	\$ 0	\$ 0	\$ 18,655	\$ 18,655

**Reconciliation to the Statement of Revenues, Expenditures,  
and Changes in Fund Balances:**

Fund Balance-Ending	\$ 18,655
Prior Year Voided Check	<u>100</u>
Fund Balance - Ending	<u>\$ 18,755</u>

**SPENCER COUNTY**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**

**June 30, 2004**

**Budgetary Information**

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer. Formal budgets are not adopted for the Public Properties Corporation Bond Fund.

The State Local Finance Officer does not require the Public Properties Corporation Bond Fund to be budgeted. Bond indentures and other relevant contractual provisions require specific annual payments to these funds and these transfers are budgeted in the governmental funds.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.



**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**





**CRIT LUALLEN**  
**AUDITOR OF PUBLIC ACCOUNTS**

The Honorable David Jenkins, Spencer County Judge/Executive  
Members of the Spencer County Fiscal Court

**Report On Internal Control Over Financial Reporting And On  
Compliance And Other Matters Based On An Audit Of The Financial  
Statements Performed In Accordance With Government Auditing Standards**

We have audited the financial statements of the governmental activities and each major fund of Spencer County, Kentucky as of and for the year ended June 30, 2004, which collectively comprise the County's basic financial statements and have issued our report thereon dated May 2, 2005. Spencer County prepares its financial statements in accordance with the modified cash basis of accounting which is a comprehensive basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered Spencer County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Spencer County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.



Report On Internal Control Over Financial Reporting  
And On Compliance And Other Matters Based On An Audit Of  
The Financial Statement Performed In Accordance With Government Auditing Standard  
(Continued)

This report is intended solely for the information and use of Spencer County Fiscal Court and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen  
Auditor of Public Accounts

Audit fieldwork completed -  
May 2, 2005

